

Charter Schools

Background

Charter schools are becoming increasingly common throughout the nation. Charter schools are independent public schools that contract with state or local education agencies, public and private universities, community colleges, independent boards or other local governments to provide educational services. State or local education agencies generally provide funding to the charter schools, typically based on student enrollment levels. The operating environment for charter schools differs from traditional public schools in that their charters exempt them from many state and local regulations, while they are held accountable for educating students to standards of performance included in the charter.

By the end of 1999, 36 states and the District of Columbia had enacted laws allowing charter schools to operate. In the same year, 271 new charter schools opened, bringing the national total to 1,682 charter schools. The growth in charter school programs has resulted in significant interest in charter schools, particularly in terms of their effectiveness and financial accountability.

According to a framework developed by the U.S. Department of Education, charter school legislation differs between states in the following areas:

- Charter development process and authorization
- Legal status of charter school versus LEAs
- Level, type, and source of funding and degree of fiscal independence
- Student admission policies (to access federal funds charter schools must have a student lottery system)
- Staffing and labor relations policies
- Instructional and curricular autonomy
- Methods of evaluating performance and renewing charters
- Support services that must be provided to charter schools by LEAs including transportation services, food service and special education assessment services

While charter schools are designed to be held accountable for student performance, the focus on financial accountability typically is less structured. Because funding is provided to charter schools from different sources, based upon the varying state laws, there is no

consistent model for tracking financial performance at charter schools throughout the nation. However, many states require an annual financial statement audit of charter schools.

Many charter schools are new organizations that face the financial challenges of start-up enterprises, including a scarcity of resources and the development of new management systems and procedures. These challenges have heightened the importance of effectively monitoring financial performance for charter schools. However, the operational frameworks of charter schools result in reduced financial oversight compared to traditional public schools. Although public funding is utilized in both cases, charter schools have reporting requirements that differ from those required for public school districts. Therefore, methods of tracking financial performance for charter schools should be developed while reducing bureaucratic reporting requirements.

One of the key issues related to the tracking of charter school expenditures is the ability to segregate these expenditures from the regular operations of an LEA. In addition, some SEAs wish to examine charter school expenditures on both a segregated and consolidated (with the LEAs regular operations) basis.

The current accounting framework (NCES Handbook) does not address the appropriate method for LEAs to account for payments or services to charter schools operating within the district. While program code 500 (Non-Public School Programs) has an intent similar to that needed for LEAs to account for expenditures associated with charter schools, program code 500 addresses schools that are not considered public institutions. Because charter schools are public institutions, expenditures associated with them would not be included in this program code properly.

Expenditure object code 560 (Tuition) addresses the accounting of expenditures to reimburse other educational agencies for instructional services to students residing in the legal boundaries of the LEA. However, there is no sub-object code that addresses charter schools specifically.

Finally, the Handbook does not address reporting standards or requirements for the charter schools themselves. However, the requirements for charter school reporting and financial accountability are largely determined by the state or local charters under which they operate. Thus, the proper reporting of charter school revenues and expenditures (beyond those that must be reported through other LEAs) generally is not an issue that can be dealt with on a national basis. Charter schools should be encouraged to utilize the chart of accounts established in the Handbook to increase the comparability of financial information (where possible).

Accounting Treatment

In order to contemporize the handbook, the account code structure should be revised to reflect payments made to charter schools by LEAs in accordance with specific state laws. Three options exist for accomplishing this change:

- Option 1: Create a new program code within the 400 program code group, Other Instructional Programs – Elementary/Secondary. This would retain the public school focus of the 400 program code group; however, those programs currently accounted for within this program code (School-Sponsored Cocurricular Activities and School-Sponsored Athletics) are fundamentally different from charter schools.
- Option 2: Create a new sub-object code within the 560-Tuition program code to specifically track charter school tuition payments.
- Option 3: Revise program code 500 to include expenditures to public school programs other than the LEA to provide instructional and/or other services to students.

Proposed Handbook Revision

We recommend that the Handbook be revised to include both a new program code and expenditure object code to account for charter schools. These codes used in combination will provide LEAs with the ability to account for charter schools in total and in components (by type of recipient organization). In order to appropriately capture expenditures made by LEAs to charter schools (serving students within the LEA's boundaries), we propose revising program code 500 to include charter schools within the scope of activities.

Program code 500, **Non-Public School Programs**, is currently defined as follows:

“Activities for students attending a school established by an agency other than the State, a subdivision of the State, or the Federal Government, which usually is supported primarily by other than public funds. The services consist of such activities as those involved in providing instructional services, attendance and social work services, health services, and transportation services for nonpublic school students.”

In order to account for LEA expenditures to charter schools, we propose that program code 500 read as follows:

500. Third Party-Provided Educational Programs

Activities for students attending a school or program established by a third party, including entities established by an agency other than the State, a subdivision of the State, or the Federal Government. The services consist of such activities as providing instructional services, attendance and social work services, health services, and transportation for students who otherwise would be served by the LEA.

501. Charter Schools. Activities related to the provision of educational services to students at schools established through a charter with the State or local district. These activities include services that would have otherwise been provided directly by the LEA.”

AND

The handbook should be revised to account for expenditures to charter schools from LEAs by adding a sub-object within object code 560, Tuition, as follows:

566. Tuition to Charter Schools. Tuition paid to charter schools for services provided in accordance with the establishing charter for that school.

The use of these two codes in combination will allow LEAs to account for both the payments made to charter schools (tuition) and associated expenditures (program code). Thus, expenditures could be blended into the regular operational expenditures of the LEA (if available at a detailed level) or categorized utilizing the program code.

Finally, we recommend that brief guidance be provided in the contents of the Handbook regarding the use of the account code structure by charter schools. The following paragraph should be inserted in the Handbook contents (on page 48, as a second paragraph under the heading **Determining Needed Accounts and Dimensions**:

“Charter schools are encouraged to utilize the chart of accounts established herein for tracking and reporting their financial operations. The use of the standard chart of accounts by charter schools will provide increase the level of comparability between financial information provided by all types of public schools.”

Coding Examples

1. An LEA makes payments to a charter school for 10 students at a rate of \$2,500 per student. The charter school is chartered locally, and the payments represent a blend of both state and local revenue sources.

The payment of \$25,000 should be coded to sub-object code 566 (Tuition to Charter Schools) utilizing program code 501 (Charter Schools).

2. An LEA reports expenditures associated with charter schools operating within its boundaries (that are chartered locally). In order to report financial results to the SEA, the LEA receives detailed expenditure information from each charter school which is reported as a part of its entity-wide reporting.

The tuition payments made to charter schools would be coded to sub-object code 566 (Tuition to Charter Schools) utilizing program code 501 (Charter Schools).

When actual expenditures for the charter schools are reported back to the LEA, expenditures should be coded to the appropriate object codes (e.g., Instruction, Support Services, etc.) utilizing program code 501 (Charter Schools). In addition, the credit to expenditures for charter schools should be complemented by a debit to the expenditure sub-object code 566 (to eliminate double reporting of the expenditures).

Charter school expenditures should be reported at the state level utilizing a similar set of entries to those in the previous examples (depending upon state reporting requirements).

3. An LEA provides transportation services (according to state regulation) to a charter school operating within its boundaries. The total cost of providing these services is \$15,000 in the current fiscal year.

The LEA should code the costs of the transportation services to the normal range of expenditure object codes (salaries, supplied, etc.) utilizing program code 501 (Charter Schools).